

Message Text

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ACTION EUR-12

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EB-08 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 PA-01 PRS-01 AF-10 ARA-10 H-01 L-03
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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4604
INFO AMEMBASSY TOKYO
AMEMBASSY BONN

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USOECD

E.O. 11652: N/A
TAGS: OECD, JA, EGEN, GW
SUBJECT: OECD SEC GEN COMMENTS ON JAPAN AND GERMANY

1. IN COURSE OF WIDE RANGING CONVERSATION JANUARY 19
WITH ASSISTANT SECRETARY OF COMMERCE FRANK WEIL, OECD
SECRETARY GENERAL VAN LENNEP INDICATED THAT HIS
ECONOMIC COUNSELOR STEPHEN MARRIS WILL SOON VISIT
JAPAN. HE SAID THE JAPANESE GOVERNMENT HAD REQUESTED
THE VISIT TO DETERMINE WHAT THE LIKELY OUTCOME OF
. CURRENT JAPANESE ECONOMIC POLICIES REALLY IS AND WHAT
POLICIES MIGHT BRING ABOUT THE RESULT THEY SEEK. VAN
LENNEP COMMENTED THAT IN HIS VIEW THE JAPANESE NEEDED
FUNDAMENTALLY TO RESTRUCTURE THEIR ECONOMY. HE FELT
THAT AFTER THE OIL CRISIS OF 1973-74 JAPAN HAD MADE
A BASIC ERROR. RATHER THAN ENCOURAGING A MORE OPEN
POLICY AS THEY HAD BEEN SHOWING SIGNS OF DOING, THEY
ASSUMED A DEFENSIVE POSTURE, FOR EXAMPLE IN TEXTILES,
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WITH RESPECT TO OTHER ASIAN SUPPLIERS
AND HAVE INCREASINGLY BECOME A STRUCTURALLY SURPLUS
COUNTRY. VAN LENNEP THOUGHT JAPAN SHOULD REVERSE
THIS PROCESS, FUNDAMENTALLY AIMING AT AN ECONOMY GEARED
TO LOWER GROWTH AND INCREASED IMPORTS. THIS WOULD
REQUIRE FUNDAMENTAL CHANGES IN BASIC JAPANESE THINK-
ING ON MATTERS OF DEMAND MANAGEMENT AND TRADE POLICY.

VAN LENNEP THOUGHT THAT IN THE IMMEDIATE TERM THE MEASURES OF STIMULUS THUS FAR OUTLINED WOULD BE INADEQUATE TO MOVE FROM THE CURRENT 4-5 PER CENT GROWTH RATE TO THE DESIRED 7 PER CENT. HE FELT THAT THEIR BREAKING THROUGH THE 30 PER CENT BARRIER FOR DEBT FINANCING OF BUDGET DEFICITS HAD BEEN IMPORTANT PSYCHOLOGICALLY AND POLITICALLY BUT THAT THE 37 PER CENT FIGURE NOW PROPOSED WAS STILL QUITE INADEQUATE. VAN LENNEP AGREED WITH WEIL'S COMMENT THAT EXPANSION COULD NOT BE BASED ON GOVERNMENT SPENDING ALONE BUT REQUIRED A RETURN OF BUSINESS AND CONSUMER CONFIDENCE. VAN LENNEP DOUBTED, HOWEVER, THAT SUCH CONFIDENCE COULD BE ACHIEVED UNLESS THE GOJ WERE WILLING TO INCREASE SUBSTANTIALLY THE LEVEL OF DEFICIT SPENDING. FURTHERMORE, VAN LENNEP COMMENTED THAT THE JAPANESE GOVERNMENT SEEMED TO HAVE THOUGHT THAT GOVERNMENT SPENDING WOULD BE ENOUGH BY ITSELF TO ACHIEVE EXPANSION AND THEY HAD CONSEQUENTLY NEVER USED THE NORMAL INSTRUMENTS TO STIMULATE CONSUMER DEMAND. FOR EXAMPLE, THEY HAD ARGUED AGAINST TAX CUTS BECAUSE THEY SAID TAXES WERE ALREADY SO LOW.

2. VAN LENNEP COMMENTED THAT DURING THE NOVEMBER ECONOMIC POLICY COMMITTEE MEETING THE JAPANESE HAD EXPRESSED SATISFACTION WITH THE STRONG PRESSURE TO WHICH THEY HAD BEEN SUBJECTED. THEY SAID THIS LIMITED OFFICIAL USE

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PRESSURE WAS EXACTLY WHAT FUKUDA HOPED TO GET FOR USE IN THE INTERNAL DISCUSSIONS WHICH HAD RESULTED IN THE CHANGE OF GOVERNMENT AND THE CHANGE IN ECONOMIC POLICY. VAN LENNEP SAID THE U.S. BILATERAL PRESSURES HAD THEN MOVED THE JAPANESE IN A MORE CONCRETE WAY AND THE OECD WOULD NOW -- LESS VISIBLY -- SEEK TO CONTINUE TO INFLUENCE THE JAPANESE TO ADOPT SENSIBLE POLICIES THROUGH MULTILATERAL PRESSURE. ASSISTANT SECRETARY WEIL AGREED WITH VAN LENNEP'S THINKING. WEIL NOTED THAT BILATERAL APPROACHES HAD LIMITS BECAUSE THEY LOOKED LIKE INTERFERENCE IN DOMESTIC AFFAIRS. HE COMMENTED THAT THE JAPANESE HAD BEEN SO SUCCESSFUL COMMERCIALLY THAT ONE ASSUMED THEY WERE MORE SOPHISTICATED ON ECONOMIC POLICY TOOLS THAN THEY REALLY ARE. HE THOUGHT THEY GENUINELY WANTED ADVICE AND HELP. SECRETARY WEIL THOUGHT THAT IN THE PAST

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THE JAPANESE MIGHT HAVE BEEN CYNICAL ABOUT THEIR INTERNATIONAL POLICY PRONOUNCEMENTS BUT HE FELT THAT NOW THEY SINCERELY WANTED TO MOVE TOWARD EQUILIBRIUM. THE JAPANESE SAW THEIR CHOICES AS EITHER BEING SHUT OUT OF U.S. AND EUROPEAN MARKETS OR OF LETTING IMPORTS INTO THEIRS AND THAT THEY WOULD CHOOSE THE LATTER COURSE. WHILE THEY WOULD MAKE A SERIOUS EFFORT FOR THIS, FOREIGN EXPORTERS WOULD ALSO NEED TO MAKE AN EFFORT AND WOULD HAVE TO SEEK MORE ACTIVELY TO PENETRATE THE JAPANESE MARKET.

3. ON GERMANY, VAN LENNEP SAID KEY MEMBERS OF THE FRG GOVERNMENT, INCLUDING SCHMIDT, DOUBTED THE TRADITIONAL INSTRUMENTS WOULD PROVIDE TEXTBOOK RESULTS IN TODAY'S WORLD. THEREFORE, THEY WERE FOR EXAMPLE RELUCTANT TO GO TO PARLIAMENT TO SEEK A REDUCTION IN INDIRECT TAXES WHEN THEY WERE NOT SURE WHAT THE RESULT MIGHT BE. ON DEUTSCHEMARK APPRECIATION, WEIL COM-
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MENTED THAT IT HAD A MINIMAL EFFECT ON THE TRADE POSITION SO THE SELF-EQUILIBRATING MECHANISM WASN'T WORKING. VAN LENNEP SAID IT WAS EVEN WORK-

ING PERVERSELY SINCE AN APPRECIATION CUT PROFIT
MARGINS, LEADING TO FURTHER PRESSURES FOR EXPORTS.
VAN LENNEP SAID THAT AS A FIRST STEP HE HOPED INCREASES
DURING THE GERMAN WAGE ROUND THIS SPRING WOULD BE
LOW, AFTER WHICH GOG WOULD BE IN A POSITION TO TAKE
FURTHER MEASURES TO STIMULATE HIGHER GROWTH. MARRIS
HAS BEEN INVITED TO THE FRG AGAIN, ACCORDING TO VAN
LENNEP.
SALZMAN

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